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DECEMBER 7, 1979

B-158685

RELEASED



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The Honorable Tony P. Hall  
House of Representatives

Dear Mr. Hall:

Subject: Contracting Out of Laundry Services at  
Wright-Patterson Air Force Base, Ohio  
(PSAD-80-17)

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In response to your August 22, 1979, request, we investigated an allegation that the contracting out of laundry services by the Department of the Air Force at Wright-Patterson Air Force Base, Ohio, might not be cost effective. You also requested that we investigate the use of handicapped and hard-to-employ personnel in the laundry.

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We reviewed the contract files, the cost comparison which supported the contracting-out decision, and other pertinent records and correspondence. We also interviewed responsible Air Force Logistics Command officials and the Federal employee who made the allegation. The following is a summary of our findings.

CONTRACT PERFORMANCE  
IS COST EFFECTIVE

Based on its cost comparison which showed that contracting out for laundry services would result in a 3-year cost savings of about \$30,000, the Air Force awarded two contracts on August 10, 1979, to provide laundry services for the base medical center and other base activities. We reviewed the cost comparison, using the same criteria as the Air Force, and agree that contracting out for laundry services costs less than obtaining this service in-house. We estimate, however, that the 3-year savings will be about \$387,000.

A major portion of the difference between the Air Force's estimated savings and ours results from an inaccurate Air Force estimate of the number and type of in-house employees required to produce quality laundry service. The Air Force estimate was based on the equivalent of about 15 full-time

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personnel, while our estimate was based on 21 full-time positions. The Air Force estimate was in error because it was based on historical data rather than future estimates of the work required by the contracts. Our cost estimate, compared with that of the Air Force, is shown in enclosure I.

The Air Force cost comparison was prepared in accordance with section 814 of the Department of Defense Appropriation Authorization Act, 1979. 1/ Section 814 required that Defense use, during fiscal year 1979, the policy and regulations that were in force before June 30, 1976, when determining whether commercial or industrial-type functions should be performed by private contractors or Defense employees. This guidance, which includes the Office of Management and Budget (OMB) Circular A-76, as revised in 1967 ("Policies for acquiring commercial or industrial products and services for Government use"), and appropriate implementing Defense and Air Force instructions, differs considerably from newly issued guidance. For example, in computing civilian personnel costs, a factor of 8.44 percent was applied to base pay to cover fringe benefits, such as retirement. A revised OMB Circular A-76, dated March 29, 1979, however, requires that a fringe benefit factor of 26 percent be used in all cost studies initiated after May 1, 1979. Therefore, the Air Force and our cost estimates should not be interpreted to represent actual costs or savings. We believe, however, that the contracting-out decision would also be supported by a cost comparison based on the newly issued guidance.

USE OF HANDICAPPED  
AND HARD-TO-EMPLOY

It was alleged that closing the base laundry would result in a loss of employment for handicapped and hard-to-employ veteran and student personnel. Of 26 persons employed by the laundry when we started our review on September 21, 1979, base officials were able to identify 17 as being in 1 of these 3 categories but, with the exception of 2 students, not whether they, as individuals, were considered hard-to-employ. The two students were handicapped and also considered to be hard-to-employ.

Of the 17, 16 were offered, and 13 accepted, other positions on base. Of the 13, 3 permanent employees accepted other permanent positions, 8 temporary employees accepted

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1/Public Law 95-485, 92 Stat. 1611.

other temporary positions at the same grade level, and 2 students accepted other part-time student aide positions. The person not offered other employment was hired after the contracts were awarded with the understanding that the position would expire when the laundry closed on October 19, 1979.

The employment status of the eight persons who accepted temporary positions is uncertain beyond December 31, 1979. Most, however, will be considered for employment again in the spring of 1980.

Although the laundry employed only two students on September 21, 1979, it had employed a much larger number in the past, including a relatively large number of handicapped or unskilled students. For example, on May 31, 1979, 17 students were employed. A student work program official stated that closing the laundry will result in a reduction of about 10 handicapped or unskilled student workers during the school year and approximately 25 fewer such students in the summer. Also, these students will be replaced by students with some work skills with no overall reduction in the number of students in the program.

The placement of all 26 persons employed on September 21, 1979, is shown in enclosure II.

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As you requested, we did not obtain written comments from the Air Force or the contractors involved. However, we did discuss our findings with Air Force officials on an informal basis and their comments were considered in preparing this report. They agreed, with only minor exception, that our cost computations were accurate.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 5 days from the date of the report. At that time we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,



J. H. Stolarow  
Director

Enclosures - 2

COMPARISON OF AIR FORCE AND GAO IN-HOUSE/  
CONTRACT COST ESTIMATE FOR LAUNDRY SERVICES AT  
WRIGHT-PATTERSON AIR FORCE BASE, OHIO,  
FOR THE 3-YEAR PERIOD BEGINNING OCTOBER 18, 1979

<u>Cost factors</u>	<u>Air Force estimate</u>	<u>GAO adjustments</u>	<u>GAO estimate</u>
Government operation:			
Civilian personnel	\$ 651,788	a/\$288,973	\$ 940,761
Materials, supplies, utilities, and other services	161,787	1,182	162,969
Maintenance and repair	96,750	b/60,287	157,037
Depreciation	48,536	-6,313	42,223
Other personnel costs	57,609	-	57,609
Miscellaneous	<u>51,139</u>	<u>8,455</u>	<u>59,594</u>
Total	<u>\$1,067,609</u>	<u>\$352,584</u>	<u>\$1,420,193</u>
Contract operation:			
Contract cost	\$1,026,779	\$ -5,212	\$1,021,567
Miscellaneous	<u>10,700</u>	<u>1,366</u>	<u>12,066</u>
Total	<u>\$1,037,479</u>	<u>\$ -3,846</u>	<u>\$1,033,633</u>
Savings by contract	<u>\$ 30,130</u>	<u>\$356,430</u>	<u>\$ 386,560</u>

a/Result of increasing the estimated number of personnel from 15 to 21 and converting a primarily temporary/part-time work force to an all permanent basis. The laundry manager stated that a permanent work force is more stable and effective and is necessary to provide quality service.

b/Results primarily from erroneous classification of a portion of two repair projects as capital investment cost rather than maintenance and repair. Projects were for the replacement of existing systems and would not have enhanced or increased system capacities.

PLACEMENT OF PERSONS EMPLOYED ON  
SEPTEMBER 21, 1979, BY THE BASE LAUNDRY AT  
WRIGHT-PATTERSON AIR FORCE BASE, OHIO

<u>Grade</u>	<u>Position</u>	<u>Veteran</u>	<u>Handi- capped</u>	<u>Placement status as of October 19, 1979</u>
GS-11	Plant manager	Yes	No	WG-5 painter helper
GS-6	Accounting technician	No	No	Will retire
GS-4	Clerk typist	No	No	GS-4 clerk typist
GS-2	Clerk	No	No	GS-2 clerk
WG-9	Equipment repairman	Yes	No	WG-5 crane operator helper
WG-2	Laundry worker	No	Yes	WG-2 gardener
WG-2	Laundry worker	Yes	No	Found own employment
WG-2	Laborer	No	Yes	(a)
WG-2	Presser	No	Yes	Offered temporary job on base and was offered job by laundry contractor
WG-2	Laborer	No	Yes	(b)
WG-2	Presser	Yes	No	(b)
WG-2	Laundry worker	No	No	(c)
WG-2	Laundry worker	No	No	(c)
WG-2	Laundry worker	No	No	(c)
WG-1	Laundry worker	No	Yes	Found own employment
WG-1	Laundry worker	No	Yes	(b)
WG-1	Laborer	No	Yes	(a)
WG-1	Laundry worker	No	Yes	(b)
WG-1	Laundry worker	No	Yes	(b)
WG-1	Laundry worker	No	No	(c)
WG-1	Laborer	No	Yes	(b,c)
WG-1	Laundry worker	No	No	(c)
WG-1	Laundry worker	Yes	No	(c)
WG-1	Laundry worker	No	No	Offered temporary employment on base and not employed by laundry as of 10/19/79
No grade	Student aide laborer	No	Yes	Placed in other part-time job on base
No grade	Student aide laborer	No	Yes	Placed in other part-time job on base

a/Accepted temporary laborer position on base at same grade level. Air Force uncertain whether this person will be considered for employment in 1980.

b/Accepted temporary laborer position on base at same grade level. Position expires on December 31, 1979. This person will be considered for employment again in spring 1980.

c/Hired after laundry contracts were awarded and was informed position would expire on October 19, 1979, which is the date the laundry closed.